



Great Kei Local Municipality
(Registration number EC123)
Annual Financial Statements
for the year ended 30 June 2019

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Nature of business and principal activities

Great Kei Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998)

The municipality's operations are governed by:

-Municipal Finance Management Act no. 56 of 2003

-Municipal Structures Act no.117 of 1998

-Municipal Systems Act no. 32 of 2000 and various other acts and regulations.

List of councillors

Mayor

N.W.Tekile (Speaker)

Chief Whip

N. Kantshashe

Councillors

N. P. Mgema

N.Dyani

L.Plika

L. Mhlontlo

B. Wood

S. Jacobs

T. Ndolose

Z. Nzuzo

W. Sinqana

Z. Tshali

M. Njekane

Accounting Officer

L.N. Mambila

Registered office

17 Main Street

Komga

4950

Bankers

Standard Bank Limited

Auditors

Auditor General of South Africa

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance Audit & Risk Officer
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Great Kei Local Municipality

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and based on the financial recovery plan of the Municipality and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 65, which have been prepared on the going concern basis, were approved and signed by:

L.N. Mambila
Accounting Officer

Saturday, 30 November 2019

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

	Note(s)	2019 R	2018 Restated* R
Assets			
Current Assets			
Receivables from exchange transactions	2	15 279 168	7 889 446
Receivables from non-exchange transactions	3	21 835 402	6 223 574
Cash and cash equivalents	4	13 804 453	550 317
		50 919 023	14 663 337
Non-Current Assets			
Investment property	5	82 043 547	82 043 547
Property, plant and equipment	6	256 250 911	265 032 706
Intangible assets	7	1 113 012	3 770 029
Heritage assets	8	36 000	36 000
		339 443 470	350 882 282
Total Assets		390 362 493	365 545 619
Liabilities			
Current Liabilities			
Other financial liabilities	9	-	804 350
Finance lease obligation	10	-	42 648
Payables from exchange transactions	11	60 294 048	52 073 447
VAT payable	12	282 261	1 799 373
Employee benefit obligation	13	394 467	445 000
Unspent conditional grants and receipts	14&21	35 375	673 904
		61 006 151	55 838 722
Non-Current Liabilities			
Employee benefit obligation	13	11 930 451	9 511 000
Provisions	15	16 124 114	14 071 642
		28 054 565	23 582 642
Total Liabilities		89 060 716	79 421 364
Net Assets		301 301 777	286 124 255
Accumulated surplus		301 301 777	286 124 255

* See Note 38 & 37

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

		2019	2018
	Note(s)	R	Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	16	17 999 471	16 939 325
Rental of facilities and equipment	17	239 872	528 835
Licences and permits	22	740 320	1 121 695
Commissions received	22	14 136	51 714
Other income	18	993 917	642 220
Interest received	19	13 414 024	5 396 536
Total revenue from exchange transactions		33 401 740	24 680 325
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	18 228 973	23 726 894
Transfer revenue			
Government grants & subsidies	21	69 878 527	59 176 904
Fines, Penalties and Forfeits	22	186 988	29 299
Total revenue from non-exchange transactions		88 294 488	82 933 097
Total revenue	22	121 696 228	107 613 422
Expenditure			
Employee related costs	23	(51 750 420)	(50 635 876)
Remuneration of councillors	24	(2 024 012)	(4 137 141)
Depreciation and amortisation	25	(20 484 987)	(19 893 046)
Finance costs	26	(1 566 389)	(3 075 885)
Lease rentals on operating lease		(139 023)	(506 799)
Debt Impairment	27	1 221 138	(17 459 465)
Bulk purchases	29	(8 741 275)	(8 377 501)
General expenses	30	(22 155 311)	(28 683 277)
Total expenditure		(105 640 279)	(132 768 990)
Operating (deficit) / surplus		16 055 949	(25 155 568)
Actuarial gains / (losses)		1 009 893	(1 678 465)
Loss on disposal of assets and liabilities		178 982	(147 211)
		1 188 875	(1 825 676)
(Deficit) / surplus for the year		17 244 824	(26 981 244)

* See Note 38 & 37

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	343 356 549	343 356 549
Adjustments		
Prior year adjustments	-	-
Restated* Balance at 01 July 2016	309 748 569	309 748 569
Changes in net assets		
Surplus / (deficit) for the year	(23 624 314)	(23 624 314)
Total changes	(23 624 314)	(23 624 314)
Opening balance as previously reported	286 076 739	286 076 739
Adjustments		
Prior year adjustments (refer note 39)	-	-
Restated* Balance at 01 July 2018 as restated*	286 076 739	286 076 739
Changes in net assets		
Surplus for the year	15 225 038	15 225 038
Total changes	15 225 038	15 225 038
Balance at 30 June 2019	301 301 777	301 301 777

* See Note 38 & 37

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

	Note(s)	2019 R	2018 R
Cash flows from operating activities			
Receipts			
Taxation		4 025 271	14 770 435
Sale of goods and services		12 597 994	10 782 375
Grants		69 239 998	59 802 202
Interest income		12 932 353	6 543 098
		<u>98 795 616</u>	<u>91 898 110</u>
Payments			
Employee costs		(45 557 653)	(50 729 170)
Suppliers		(25 901 246)	(24 947 813)
Finance costs		(2 037 789)	(3 075 885)
		<u>(73 496 688)</u>	<u>(78 752 868)</u>
Undefined difference compared to the cash generated from operations note		963 342	-
Net cash flows from operating activities	31	25 298 928	13 145 242
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(11 197 805)	(11 660 514)
Proceeds from sale of property, plant and equipment	6	-	-
Net cash flows from investing activities		(11 197 805)	(11 660 514)
Cash flows from financing activities			
Movement in other financial liabilities		(804 350)	(382 966)
Finance lease payments		(42 648)	(288 873)
Net cash flows from financing activities		(846 998)	(671 839)
Net increase/(decrease) in cash and cash equivalents		13 254 125	812 889
Cash and cash equivalents at the beginning of the year		550 317	(262 570)
Cash and cash equivalents at the end of the year	4	13 804 442	550 319

* See Note 38 & 37

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	13 870 053	-	13 870 053	17 999 471	4 129 418	1
Rental of facilities and equipment	276 676	-	276 676	239 872	(36 804)	
Licences and permits	2 200 000	(500 000)	1 700 000	740 320	(959 680)	2
Commissions received	-	-	-	14 136	14 136	3
Other income	20 032 630	(10 406 831)	9 625 799	993 917	(8 631 882)	4
Interest received	2 329 331	2 274 669	4 604 000	13 414 024	8 810 024	5
Total revenue from exchange transactions	38 708 690	(8 632 162)	30 076 528	33 401 740	3 325 212	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	25 790 820	-	25 790 820	18 228 973	(7 561 847)	6
Transfer revenue						
Government grants & subsidies	45 547 000	-	45 547 000	69 878 527	24 331 527	7
Fines, Penalties and Forfeits	2 815	-	2 815	186 988	184 173	
Total revenue from non-exchange transactions	71 340 635	-	71 340 635	88 294 488	16 953 853	
Total revenue	110 049 325	(8 632 162)	101 417 163	121 696 228	20 279 065	
Expenditure						
Employee related costs	(50 444 468)	(1 151 086)	(51 595 554)	(51 750 420)	(154 866)	
Remuneration of councillors	(4 600 000)	-	(4 600 000)	(2 024 012)	2 575 988	
Depreciation and amortisation	(25 000 000)	7 000 000	(18 000 000)	(20 484 987)	(2 484 987)	
Finance costs	(665 000)	(35 000)	(700 000)	(1 566 389)	(866 389)	
Debt Impairment	(12 500 000)	-	(12 500 000)	1 221 138	13 721 138	
Bulk purchases	(8 700 000)	(2 036 129)	(10 736 129)	(8 741 275)	1 994 854	
General expenses	(32 677 760)	9 600 841	(23 076 919)	(22 155 311)	921 608	
Total expenditure	(134 587 228)	13 378 626	(121 208 602)	(105 640 279)	15 568 323	
Operating surplus	(24 537 903)	4 746 464	(19 791 439)	16 055 949	35 847 388	
Gain on disposal of assets and liabilities	-	-	-	1 009 893	1 009 893	17
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	17 116 000	237 752	17 353 752	-	(17 353 752)	
Gain on non-current assets held for sale or disposal groups	-	-	-	178 982	178 982	15
	17 116 000	237 752	17 353 752	1 188 875	(16 164 877)	
Surplus before taxation	(7 421 903)	4 984 216	(2 437 687)	17 244 824	19 682 511	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(7 421 903)	4 984 216	(2 437 687)	17 244 824	19 682 511	

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Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	-	-	-	15 279 168	15 279 168	2
Receivables from non-exchange transactions	-	-	-	21 835 402	21 835 402	3
Consumer debtors	11 252 498	2 860 713	14 113 211	-	(14 113 211)	
Consumer debtors	-	-	-	-	-	4
Cash and cash equivalents	3 550 718	651 175	4 201 893	21 593 636	17 391 743	5
	14 803 216	3 511 888	18 315 104	58 708 206	40 393 102	
Non-Current Assets						
Investment property	71 543 700	-	71 543 700	82 043 547	10 499 847	
Property, plant and equipment	269 894 503	(6 058 835)	263 835 668	256 250 911	(7 584 757)	
Intangible assets	113 926	(113 400)	526	1 113 012	1 112 486	
Heritage assets	-	-	-	36 000	36 000	
	341 552 129	(6 172 235)	335 379 894	339 443 470	4 063 576	
Liabilities						
Current Liabilities						
Other financial liabilities	418 000	386 348	804 348	-	(804 348)	10
Payables from exchange transactions	31 630 492	-	31 630 492	60 294 050	28 663 558	12
VAT payable	-	-	-	282 261	282 261	
Employee benefit obligation	1 001 874	-	1 001 874	394 467	(607 407)	13
Unspent conditional grants and receipts	-	-	-	35 375	35 375	
Provisions	-	-	-	-	-	14
Consumer deposits	-	-	-	-	-	15
Bank overdraft	-	-	-	7 789 183	7 789 183	
	33 050 366	386 348	33 436 714	68 795 336	35 358 622	
Non-Current Liabilities						
Borrowings	265 000	(265 000)	-	-	-	
Employee benefit obligation	10 755 542	13 221 565	23 977 107	11 930 451	(12 046 656)	
Provisions	-	-	-	16 124 114	16 124 114	
	11 020 542	12 956 565	23 977 107	28 054 565	4 077 458	
Total Liabilities	44 070 908	13 342 913	57 413 821	96 849 901	39 436 080	
Net Assets	312 284 437	(16 003 260)	296 281 177	301 301 775	5 020 598	
Net Assets						
Accumulated surplus						
Reserves						
Accumulated surplus	312 284 437	(16 003 260)	296 281 177	301 301 775	5 020 598	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Cash Flow Statement

Cash flows from operating activities

Receipts

Property rates	18 936 000	-	18 936 000	-	(18 936 000)
Service charges	9 072 785	-	9 072 785	-	(9 072 785)
Grants	62 663 000	-	62 663 000	-	(62 663 000)
Interest income	2 329 331	-	2 329 331	-	(2 329 331)
Other receipts	22 512 122	-	22 512 122	-	(22 512 122)
	115 513 238	-	115 513 238	-	(115 513 238)

Payments

Suppliers and employees	(96 840 228)	-	(96 840 228)	-	96 840 228
Finance costs	(247 000)	-	(247 000)	-	247 000
	(97 087 228)	-	(97 087 228)	-	97 087 228

Net cash flows from operating activities	18 426 010	-	18 426 010	-	(18 426 010)
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Cash flows from investing activities

Purchase of property, plant and equipment	(17 626 750)	(10 617 752)	(28 244 502)	-	28 244 502
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Cash flows from financing activities

Repayment of other financial liabilities	(418 000)	-	(418 000)	-	418 000
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Net increase/(decrease) in cash and cash equivalents	381 260	(10 617 752)	(10 236 492)	-	10 236 492
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Cash and cash equivalents at the end of the year	381 260	(10 617 752)	(10 236 492)	-	10 236 492
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Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and are rounded to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and other receivables

The municipality assesses its trade receivables and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that key assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Investment property (continued)

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

Infrastructure

- | | |
|---------------------------|---------------|
| • Tarred roads and paving | 30 – 80 years |
| • Access roads | 3 – 5 years |
| • Electricity | 7 – 50 years |

Other property, plant and equipment

- | | |
|---|--------------|
| • Buildings and related items | 5 - 80 years |
| • Recreational facilities and related items | 5 - 80 years |
| • Halls and related items | 5 - 30 years |
| • Parks and gardens and related items | 5 - 30 years |
| • Plant, machinery and other equipment | 5 - 25 years |
| • Furniture, fittings and office equipment | 5 - 10 years |
| • Motor vehicles | 5 - 10 years |

Landfill sites

4 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 6).

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 7 years

Great Kei Local Municipality

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1.7 Intangible assets (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

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1.9 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Receivables from exchange transactions measured at amortised cost
- Receivables from non exchange transactions measured at amortised cost
- Cash and cash equivalents measured at amortised cost
- Payables from exchange transactions
- Long term borrowings measured at amortised cost
- Unspent conditional grants measured at amortised cost
- Finance lease obligation

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends or similar distributions and interest.

Dividend or similar distributions income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends or similar distributions received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

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1.9 Financial instruments (continued)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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1.9 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Great Kei Local Municipality

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Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Great Kei Local Municipality

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Accounting Policies

1.10 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Great Kei Local Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.14 Provisions and contingencies (continued)

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest method.

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. The tariffs are determined per category of property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Tariff charges

Revenue arising from the application of approved tariffs is recognised when the service is rendered by applying the relevant authorised tariff. This includes the issue of licenses and permits.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms span over more than one financial year a straight-line basis is used.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Rates, including collection charges, penalties and interest

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates.

These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as

part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification. Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant note to the Annual Financial Statements.

Comparative information is not required.

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.25 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.27 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.28 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.29 Contingent assets and contingent liabilities

The Municipality does not recognise contingent liabilities or contingent assets, but discloses them in the notes to the annual financial statements.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and liabilities are not recognised. Contingencies are disclosed in note 35 to the annual financial statements.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.30 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirements except to the extent that it is impracticable to determine the period specific effects or accumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in note to the annual financial statements.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in accounting estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in note 37 to the financial statements.

1.31 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
2. Receivables from exchange transactions		
Trade debtors	51 961 093	44 840 974
Debt impairment	(39 826 559)	(39 826 559)
Sundry debtors	2 765 675	2 765 675
Unallocated receipts	218 461	75 940
Department of transport MVR	183 714	58 372
Sundry receipts default account	(23 216)	(24 956)
	15 279 168	7 889 446

Non-current assets

	-	-
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30 June 2019

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	- 385 182	115 785	618 872	1 119 839
Residents and other	- 2 025 417	1 086 055	34 424 771	37 536 243
Industries	- 280 407	370 247	3 244 805	3 895 459
	- 2 691 006	1 572 087	38 288 448	42 551 541

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Electricity	566 547	450 197	3 419 834	4 436 578
Refuse removal	2 067 518	1 093 212	34 792 861	37 953 591
Sundries	56 940	28 677	75 754	161 371
	2 691 005	1 572 086	38 288 449	42 551 540

30 June 2018

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	85 908	33 520	109 432	228 860
Residents	1 809 821	859 557	39 758 499	42 427 877
Industries	340 781	154 855	1 688 601	2 184 237
	2 236 510	1 047 932	41 556 532	44 840 974

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Electricity	245 220	232 503	1 710 635	2 188 358
Refuse removal	1 943 976	773 449	39 322 318	42 039 743
Sundry	47 314	41 980	523 579	612 873
	2 236 510	1 047 932	41 556 532	44 840 974

Trade and other receivables pledged as security

There were no trade and other receivables pledged as security.

Trade and other receivables past due but not impaired

Reconciliation of provision for impairment of trade and other receivables

Opening balance	39 826 558	31 917 957
Provision for impairment	-	7 908 601
	39 826 558	39 826 558

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
3. Receivables from non-exchange transactions		
Fines	210 698	210 698
Consumer debtors - Rates	68 976 004	53 364 176
Debt impairment	(47 351 300)	(47 351 300)
	21 835 402	6 223 574
Current assets	15 279 168	7 889 446

30 June 2019

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	461 993	251 366	9 923 076	10 636 435
Residents and others	3 862 266	2 045 647	57 846 988	63 754 901
Industries	422 634	230 521	6 203 160	6 856 315
	4 746 893	2 527 534	73 973 224	81 247 651

30 June 2018

Consumer debtors by debtor type	Column heading	0-30 Days	60 Days	90 Days +	Total
Government	-	55 622	15 310	485 718	556 650
Residents	-	2 823 226	1 267 746	43 922 645	48 013 617
Industries	-	353 338	155 953	4 284 618	4 793 909
	-	3 232 186	1 439 009	48 692 981	53 364 176

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	47 452 401	39 399 398
Provision for impairment	-	7 947 654
Amounts written off as uncollectible	-	105 349
	47 452 401	47 452 401

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	8 292 923	555 574
Short-term deposits	5 511 530	(5 257)
	13 804 453	550 317

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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4. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Standard Bank - Primary Bank - 20870963	141 876	696 075	37 208	-	555 574	(314 657)
Standard Bank - Call account - 285973452	85 958	49	4 990	-	(16 067)	34 901
Standard Bank - Call account - 388528672-004	5 402	724	2 948	-	724	2 948
Standard Bank - Call account - 388527544-402	13 767	-	-	-	-	-
Standard Bank - Call account - 388529768-402	813 582	491	5 698	-	491	5 698
Standard Bank - Call account - 388528672-002	353 151	8 617	8 540	-	8 617	8 540
Standard Bank - Call account - 388523786-002	213	977	865	-	977	-
Total	1 413 949	706 933	60 249	-	550 316	(262 570)

5. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	82 043 547	-	82 043 547	82 043 547	-	82 043 547

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	82 043 547	82 043 547

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	82 043 547	82 043 547

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Great Kei Local Municipality

(Registration number EC123)

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	82 819 489	-	82 819 489	82 819 489	-	82 819 489
Buildings	144 868 896	(76 283 718)	68 585 178	142 647 135	(72 436 800)	70 210 335
Infrastructure	249 975 701	(166 154 325)	83 821 376	241 738 696	(153 413 736)	88 324 960
Other property, plant and equipment	13 823 698	(8 017 598)	5 806 100	11 007 925	(7 046 200)	3 961 725
Work in progress	12 728 319	-	12 728 319	17 139 886	-	17 139 886
Finance lease assets	1 443 220	(1 423 573)	19 647	1 443 220	(1 423 573)	19 647
Landfill site asset	9 633 912	(7 163 110)	2 470 802	9 633 912	(7 077 248)	2 556 664
Total	515 293 235	(259 042 324)	256 250 911	506 430 263	(241 397 557)	265 032 706

Great Kei Local Municipality

(Registration number EC123)

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation	Total
Land	82 819 489	-	-	-	-	-	-	82 819 489
Buildings	70 210 335	-	(216)	2 229 271	-	-	(3 854 212)	68 585 178
Infrastructure	88 324 960	(2 032 520)	(10 519)	10 398 501	-	-	(12 859 046)	83 821 376
Other property, plant and equipment	3 961 725	2 897 961	(24 736)	-	-	-	(1 028 850)	5 806 100
Work in progress	17 139 886	8 369 377	-	-	(12 627 772)	(153 172)	-	12 728 319
Finance lease asset	19 647	-	-	-	-	-	-	19 647
Landfill site asset	2 556 664	-	-	-	-	-	(85 862)	2 470 802
	265 032 706	9 234 818	(35 471)	12 627 772	(12 627 772)	(153 172)	(17 827 970)	256 250 911

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	82 819 489	-	-	-	-	-	82 819 489
Buildings	65 749 815	7 603 324	-	-	-	(3 142 804)	70 210 335
Infrastructure	99 607 951	1 479 897	(51 826)	32 217	-	(12 743 279)	88 324 960
Other property, plant and equipment	4 957 507	168 399	(690 344)	-	563 856	(1 037 693)	3 961 725
Work in progress	14 199 353	12 024 888	-	(9 084 355)	-	-	17 139 886
Finance lease assets	170 039	-	-	-	-	(150 392)	19 647
Landfill site asset	2 642 525	-	-	-	-	(85 861)	2 556 664
	270 146 679	21 276 508	(742 170)	(9 052 138)	563 856	(17 160 029)	265 032 706

Pledged as security

Carrying value of assets pledged as security:

Capitalised expenditure (excluding borrowing costs)

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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6. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Finance lease assets	19 647	19 647
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Other information

Details of properties

7. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	8 175 455	(7 062 443)	1 113 012	8 175 455	(4 405 426)	3 770 029

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	3 770 029	(2 657 017)	1 113 012

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	6 501 561	(2 731 532)	3 770 029

Great Kei Local Municipality

(Registration number EC123)

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

8. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	36 000	-	36 000	36 000	-	36 000

Reconciliation of heritage assets 2019

	Opening balance	Total
Art Collections, antiquities and exhibits	36 000	36 000

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
9. Other financial liabilities		
At amortised cost		
Long term borrowings	-	804 350
The DBSA loan bears interest at 13% and is redeemable on 31 March 2019.		
Current liabilities		
At amortised cost	-	804 350
10. Finance lease obligation		
Minimum lease payments due		
- within one year	-	42 467
Present value of minimum lease payments due		
- within one year	-	42 467
It is municipality policy to lease certain equipment under finance leases.		
The lease terms of finance lease agreements vary from three to five years.		
Interest rates are fixed at the contract date. Leases escalate at 10% p.a and no arrangements have been entered into for contingent rent. The interest rate implicit used ranges between 24.56% - 49.14% per annum.		
The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 6.		
Depreciation and finance charges relating to leased assets are included in the total depreciation and finance charges respectively.		
11. Payables from exchange transactions		
Trade payables	32 583 906	25 654 746
Payments received in advance	8 971 517	6 139 304
Accrued leave pay	3 752 593	3 259 509
Accrued bonus	821 321	1 348 936
Deposits received	411 097	403 136
Salary suspense account	13 231 631	14 588 081
Retentions	521 983	679 735
	60 294 048	52 073 447
12. VAT payable		
Tax refunds payables	282 261	1 799 373

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
13. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(12 324 918)	(9 956 000)
Asset not recognised	-	-
	(12 324 918)	(9 956 000)
Retirement benefit asset	-	-
Retirement benefit obligation	394 467	445 000
Non-current liabilities	(11 930 451)	(9 511 000)
Current liabilities	(394 467)	(445 000)
	(12 324 918)	(9 956 000)
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	9 956 000	10 231 000
Benefits paid	(444 504)	(653 202)
Net expense recognised in the statement of financial performance	2 813 422	378 202
	12 324 918	9 956 000
Net expense recognised in the statement of financial performance		
Current service cost	922 437	713 000
Interest cost	881 092	1 055 000
Discount rate changes	597 005	(615 000)
Participant changes	(1 050 211)	(663 000)
Salary changes	200 203	140 000
Medical aid contribution increases	1 870 821	524 000
Miscellaneous	(607 925)	(775 798)
	2 813 422	378 202

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,93%	9,05%
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The long term discount rate was determined as the average of the BEASSA yield curve whilst the CPI was determined from the difference in averages in the Nominal and Real Bond.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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13. Employee benefit obligations (continued)

Other assumptions

Mortality rate

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result due to higher and lower mortality rates by increasing and decreasing mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation Assumption	+20% Mortality rate
Total Accrued Liability	9 160 274	9 866 850	10 762 256
Interest Cost	807 155	870 220	950 147
Service Cost	562 941	607 634	664 211
	-	-	-

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

The effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	-1% Medical aid inflation	Valuation assumption	+1% Medical aid inflation
Total Accrued Liability	8 323 078	9 866 850	11 835 345
Interest Cost	732 412	870 220	1 045 348
Service Cost	475 650	607 634	784 348
	-	-	-

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	1 829 696	1 208 062

Long service award inflation:

	2019 R	2018 R	2017 R
Defined benefit obligation	12 324 918	9 955 824	10 231 000
Plan assets	-	-	-

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
14. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	2 070
Finance Management Grant	-	2 137
other	-	-
EPWP Grant	35 375	63
Integrated National electrification Programme (INEP)	-	669 634
	35 375	673 904

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

15. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	14 071 642	1 581 072	471 400	16 124 114

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	9 752 795	4 318 847	14 071 642

Environmental rehabilitation provision

The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal. The Municipality is still using the existing landfill site for waste disposals because the planned arrangement of utilising the ADM's site which is in Butterworth did not continue for long as planned. However the Municipality had applied for the renewal of the licence for the existing landfill site from the Department of Economic Development and Environmental Affairs and Tourism to continue using it as a short-term measure, but that has not been granted yet due to long processes that are followed by the Department.

16. Service charges

Sale of electricity	8 725 072	7 053 165
Refuse removal	9 274 399	9 886 160
	17 999 471	16 939 325

Unspent Conditional Grants and Receipts Heading

EPWP Grant	63	63
Financial Management Grant	2 137	2 137
Integrated National Electrification Programme	-	669 634
Municipal Infrastructure Grant	9 853 070	2 070
	9 855 270	673 904

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
17. Rental of facilities and equipment		
Premises		
Premises	203 223	416 745
Facilities and equipment		
Rental of facilities	36 649	112 090
	239 872	528 835
18. Other income		
Other income	411 004	-
Building plan fees	225 048	167 312
Clearance fees	10 452	14 487
Sundry revenue	126 040	179 642
Connection fees - electricity	133 112	-
Burial and cemetery	1 153	3 965
Connection fees - electricity	87 108	276 814
	993 917	642 220
19. Interest revenue		
Interest revenue		
Bank	9 175 742	111 022
Interest charged on trade and other receivables	4 238 282	5 285 514
	13 414 024	5 396 536
20. Property rates		
Rates revenue		
Property rates	19 257 205	24 368 828
Less: Discounts allowed	(1 028 232)	(641 934)
	18 228 973	23 726 894
Valuations		
Commercial	28 310 000	28 310 000
Residential	3 049 373 414	3 049 373 414
Schools	42 630 000	42 630 000
Small holdings and farms	129 082 000	129 082 000
State	208 279 130	208 279 130
Vacant	922 995 873	922 995 873
	4 380 670 417	4 380 670 417

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 01 September 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The municipality applied for implementation of the General Valuation and therefore, property rates for the 2019 financial year were based on the 2014 General Valuation.

Rates are levied on a monthly basis.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
21. Government grants and subsidies		
Unconditional grants		
Equitable share	50 201 634	34 996 606
Library Subsidy	-	410 000
Cogta grant	1 148 000	-
EPWP grant	3 476 000	-
IEC Election Grant	-	875
Treasury Grant	-	5 464 327
	54 825 634	40 871 808
Capital grants		
Municipal Infrastructure Grant	9 853 070	11 368 930
Finance Management Grant	2 417 137	2 342 863
Expanded Public Works Programme	782 687	1 262 937
Intergrated Electrification Programme	1 999 999	3 330 366
	15 052 893	18 305 096
	69 878 527	59 176 904

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	34 782 000	40 871 808
Unconditional grants received	1 443 665	18 305 096
	36 225 665	59 176 904

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. There are no conditions attached to the equitable share and as such is recognised as revenue when received.

All registered indigents receive a monthly subsidy of 50 KW/H of electricity and 100% subsidation on rates and refuse R - (2018: R which is funded from the Equitable Share grant.

Municipal Infrastructure Grant

Balance unspent at beginning of year	2 070	48 606
Current-year receipts	9 851 000	11 371 000
Conditions met - transferred to revenue	-	(11 368 930)
Other	-	(48 606)
Undefined Difference	(9 853 070)	-
	-	2 070

Conditions still to be met - remain liabilities (see note 14).

The grant is allocated for the construction of infratructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
21. Government grants and subsidies (continued)		
Intergrated National Electrification Programme		
Balance unspent at beginning of year	669 634	-
Current-year receipts	-	4 000 000
Conditions met - transferred to revenue	(669 634)	(3 330 366)
	-	669 634

Conditions still to be met - remain liabilities (see note 14).

The Intergrated National Electrification Programme Grant is provided by the Department of Energy to facilitate for the upgrading of electrical infrastructure within the municipality.

Financial Management Grant

Current-year receipts	-	2 345 000
Conditions met - transferred to revenue	-	(2 342 863)
Unspent	-	(2 137)
	-	-

Conditions met.

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

EPWP Grant

Balance unspent at beginning of year	63	-
Current-year receipts	-	1 263 000
Conditions met - transferred to revenue	-	(1 262 937)
Unspent conditional grant	35 312	-
	35 375	63

Conditions met.

Cogta grant is a financial assistance grant received from the Provincial Department of Corporate Governance and Traditional Affairs. Cogta paid a portion of the municipality's Eskom debt.

Cogta grant

Current-year receipts	1 148 000	-
Conditions met - transferred to revenue	(1 148 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
22. Revenue		
Service charges	17 999 471	16 939 325
Rental of facilities and equipment	239 872	528 835
Licences and permits	740 320	1 121 695
Commissions received	14 136	51 714
Other income	993 917	642 220
Interest received	13 414 024	5 396 536
Property rates	18 228 973	23 726 894
Government grants & subsidies	69 878 527	59 176 904
Fines, Penalties and Forfeits	186 988	29 299
	121 696 228	107 613 422

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	17 999 471	16 939 325
Rental of facilities and equipment	239 872	528 835
Licences and permits	740 320	1 121 695
Commissions received	14 136	51 714
Other income	993 917	642 220
Interest received	13 414 024	5 396 536
	33 401 740	24 680 325

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	18 228 973	23 726 894
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Transfer revenue

Government grants & subsidies	69 878 527	59 176 904
Fines, Penalties and Forfeits	186 988	29 299
	88 294 488	82 933 097

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
23. Employee related costs		
Basic	35 912 819	35 921 792
Bonus	2 920 940	2 584 979
Medical aid - company contributions	2 708 593	2 862 727
UIF	231 537	252 213
SDL	392 437	410 059
Other payroll levies	887 155	18 224
Leave pay provision charge	639 898	429 443
Pension	4 521 340	4 770 387
Travel, motor car, accommodation, subsistence and other allowances	1 812 323	1 272 251
Overtime payments	400 675	808 638
Long-service awards	69 027	-
Acting allowances	454 173	799 499
Housing benefits and allowances	799 503	505 664
Post employment benefits expense - Defined benefit	-	-
	51 750 420	50 635 876

Include in compensation for employees above is remuneration of senior management disclosed per individual portfolios below:

Remuneration of Municipal Manager

Acting allowance	110 072	216 532
Annual Remuneration	123 255	269 311
Bonus Provision	10 000	-
Housing Subsidy	36 085	-
Travel Allowance	36 085	13 258
	315 497	499 102

Remuneration of Chief Financial Officer

Acting Allowance	5 270	24 462
Annual Remuneration	572 965	741 718
Housing Subsidy	154 027	-
Performance Bonus	44 000	-
Travel Allowance	154 027	76 012
	930 289	842 192

Additional text

Remuneration of Director: Strategic Services

Annual Remuneration	625 053	522 077
Housing Subsidy	156 029	-
Other	-	-
Performance Bonus	60 000	-
Travel Allowance	168 029	118 019
	1 009 111	640 096

Remuneration of Director: Technical Services

Annual Remuneration	625 053	506 154
Housing Allowance	168 029	-
Performance Bonuses	48 000	-
Travel Allowance	168 029	100 017
	1 009 111	606 171

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
23. Employee related costs (continued)		
Remuneration of Director - Corporate Services		
Annual Remuneration	572 965	524 077
Housing Subsidy	154 027	-
Performance Bonuses	44 000	-
Travel Allowance	154 027	116 019
	925 019	640 096
24. Remuneration of councillors		
Mayor/Speaker	822 938	736 165
Councillors	2 381 358	2 119 279
Councillors' allowances	1 206 603	1 281 697
	4 410 899	4 137 141
Remuneration of Mayor (Speaker) - N Tekile		
Salary	482 652	-
Allowances	175 392	-
	658 044	-
Remuneration of Mayor (Speaker) - L.D. Tshetsha		
Salary	121 036	532 324
Allowances	43 859	203 841
	164 895	736 165
Chief Whip - Ndabambi-Gavumente L		
Salary	59 163	166 872
Allowances	13 671	82 023
	72 834	248 895
CHIEF WHIP -KANTSHASHE		
Salary	189 168	-
Allowances	100 056	-
	289 224	-
The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.		
In-kind benefits		
The Mayor is a full-time councillor. The mayor is provided with an office and secretarial support at the cost of the Council.		
The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.		
The Mayor holds the position of the speaker as well.		
25. Depreciation and amortisation		
Property, plant and equipment	17 827 970	19 818 531
Intangible assets	2 657 017	74 515
	20 484 987	19 893 046

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
26. Finance costs		
Non-current borrowings	73 546	119 633
Trade and other payables	5 832	1 901 252
Interest on landfill site provision	471 400	-
Interest from fair value adjustments	1 015 611	1 055 000
	1 566 389	3 075 885
27. Debt impairment		
Debt impairment	-	17 459 465
Bad debts written off	(1 221 138)	-
	(1 221 138)	17 459 465
28. Repairs and Maintenance		
Repairs and maintenance on different class of assets		
Land and buildings	-	91 803
Infrastructure - electricity	-	849 290
Sanitation	-	25 423
Infrastructure - other	-	193 854
Community assets	-	117 948
Specialised vehicles	-	513 811
	-	1 792 129
29. Bulk purchases		
Electricity - Eskom	8 741 275	8 377 501

Great Kei Local Municipality

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Notes to the Annual Financial Statements

	2019 R	2018 R
30. General expenses		
Accounting fees	44 000	-
Advertising	300 431	537 936
Assets expensed	-	5 320
Auditors remuneration	-	3 219 547
Bank charges	486 814	409 098
Cleaning	25 811	42 634
Commission paid	501 079	89 279
Conferences and seminars	26 961	121 420
Consulting and professional fees	1 675 359	4 934 589
Consumables	801 759	-
Discount allowed	-	544 750
Electricity	197 975	202 150
Entertainment	32 265	72 102
Finance Management Grant	304	708 537
Free basic electricity	306 135	1 077 661
Fuel and oil	797 007	1 033 777
Insurance	704 079	350 226
LED projects	-	353 760
Legal expenses	(3 850)	176 614
Life saving services	-	236 460
Magazines, books and periodicals	5 900	201 601
Membership fees	12 383	46 127
Membership fees	4 392 244	-
Motor vehicle expenses	10 791	147 163
Other expenses	1 368 336	169 865
Postage and courier	224 722	331 875
Printing and stationery	90 548	59 487
Project maintenance costs	16 572	105 729
Promotions and sponsorships	-	5 343
Protective clothing	130 929	87 887
Refuse-Lanfillsite expense	1 609 512	4 372 968
Repairs and maintenance	1 941 323	1 792 130
I.T related expenses	373 264	667 990
Subscriptions	1 172 535	764 120
Telephone costs	3 745 776	2 483 387
Training	-	223 356
Travel - local	903 304	228 585
Valuation costs	-	332 683
Ward Committee expense	261 043	7 000
Ward Council expense	-	77 918
Water	-	2 462 203
	22 155 311	28 683 277

Great Kei Local Municipality

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Notes to the Annual Financial Statements

	2019 R	2018 R
31. Cash generated from operations		
Surplus (deficit)	21 040 213	(26 981 244)
Adjustments for:		
Depreciation and amortisation	20 484 987	19 893 046
Actuarial gains / (losses)	(1 009 893)	1 678 465
Loss on sale of assets and liabilities	(178 982)	147 211
Debt impairment	(1 221 138)	17 459 465
Other non cash items	481 671	1 146 562
Movements in employee benefit obligation	2 368 918	(275 000)
Movements in provisions	2 052 472	4 318 847
Changes in working capital:		
Inventories	-	184 246
Receivables from exchange transactions	(7 389 722)	(592 813)
Debt Impairment	1 221 138	(17 459 465)
Other receivables from non-exchange transactions	(15 611 828)	565 106
Payables from exchange transactions	4 662 963	11 917 468
VAT	-	518 050
Unspent conditional grants and receipts	(638 529)	625 298
	26 262 270	13 145 242

32. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	11 859 404	11 859 404
Other receivables from non-exchange transactions	-	19 602 560	19 602 560
Cash and cash equivalents	11 530 781	-	11 530 781
	11 530 781	31 461 964	42 992 745

Financial liabilities

	At amortised cost	Total
Other financial liabilities	167 768	167 768
Trade and other payables from exchange transactions	62 654 170	62 654 170
Taxes and transfers payable (non-exchange)	643 177	643 177
	63 465 115	63 465 115

2018

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	6 945 872	6 945 872
Other receivables from non-exchange transactions	-	6 217 167	6 217 167
Cash and cash equivalents	550 317	-	550 317
	550 317	13 163 039	13 713 356

Financial liabilities

Great Kei Local Municipality

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Notes to the Annual Financial Statements

	2019 R	2018 R
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Financial instruments disclosure (continued)

	At amortised cost	Total
Other financial liabilities	804 349	804 349
Trade and other payables from exchange transactions	52 167 264	52 167 264
Taxes and transfers payable (non-exchange)	1 852 164	1 852 164
Finance lease obligation	42 648	42 648
	54 866 425	54 866 425

33. Auditors' remuneration

Fees	-	3 219 547
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34. Commitments

Authorised expenditure

Already contracted for but not provided for

• Construction Contracts	4 133 432	2 271 137
• Community Service Contracts	93 250	102 620
• Other	699 601	8 433 266
	4 926 283	10 807 023

Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	-	10 807 023
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Total capital commitments

Already contracted for but not provided for	4 926 283	-
Not yet contracted for and authorised by accounting officer	-	10 807 023
	4 926 283	10 807 023

This committed expenditure relates to plant and equipment and other expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant funds.

35. Contingencies

Contingent liabilities

Jet Vest/Great Kei Municipality - High court application to set aside deed of sale	39 764	1 000 000
Great Kei vs Loden - Set down for trial	-	400 000
	39 764	1 400 000

Uncertainty exists as to the timing or amount of these contingent liabilities and assets.

36. Related parties

Relationships

Shareholder with significant influence
Shareholder with joint control

Name (Proprietary) Limited
Name (Proprietary) Limited

Great Kei Local Municipality

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	2019	2018
	R	R

37. Prior year adjustments

Investment Property

During the current financial year the municipality performed a complete verification of all municipal assets. A property reconciliation was also performed using the deeds data survey data. This resulted in a number of misstatements being identified that was subsequently corrected.

Property plant equipment

During the current financial year the municipality performed a complete verification of all municipal assets. A property reconciliation was also performed using the deeds data survey data. This resulted in a number of misstatements being identified that was subsequently corrected.

In addition, there was an invoice relating to WIP that was disputed due to the amount not reflective of the work done. The invoice was erroneously not recorded at year end and it has subsequently been corrected.

Intangible assets

During the current financial year the municipality discovered that the financial system that was purchased in 2017 was expensed. This resulted in a misstatement of Intangible assets and it was subsequently corrected.

Payables from exchange transactions

During the current financial year the municipality identified that there was an invoice relating to WIP that was disputed due to the amount not reflective of the work done. The invoice was erroneously not recorded at year end and it has subsequently been corrected

VAT payable

During the current financial year the municipality identified that there was an invoice relating to WIP that was disputed due to the amount not reflective of the work done. The invoice was erroneously not recorded at year end and it has subsequently been corrected.

Employee benefit obligation

During the current financial year the municipality identified an error in the actuarial gains recognised in the prior year. This has been subsequently corrected.

Accumulated surplus

Accumulated surplus balance has been restated due to corrections done in the prior year balances.

Depreciation and amortization

Prior year depreciation and amortization total has been restated to account for depreciation relating to the Non current assets restatements.

Actuarial gains / losses

During the current financial year, an error in the actuarial gains recognised in the prior year was noted and subsequently corrected by restating the prior figure..

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
37. Prior year adjustments (continued)		
Statement of Financial Position		
Investment property	-	10 499 847
Property plant and equipment	-	1 123 683
Payables from exchange transactions	-	(206 741)
VAT payable	-	31 011
	-	11 447 800
Investment property		
As previously reported	-	71 543 700
Additional properties belonging to the municipality being identified and included	-	10 539 747
Properties that could not be identified or spacely linked being removed from the register	-	(39 900)
	-	82 043 547
Property plant and equipment		
As previously reported	-	263 835 668
The asset register was updated for all new found components.	-	180 561
Depreciation was recalculated on all new found components.	-	(94 550)
Components belonging the the municipality was identified that was not included in the asset register.	-	4 812 183
Depreciation was recalculated and updated on the additional components identified.	-	(2 392 711)
Additional properties belonging to the municipality being identified and included	-	4 807 000
Properties that could not be identified or spacely linked being removed from the register	-	(5 638 800)
Properties where the municipality has no control in terms of Igrap 8 being removed.	-	(550 000)
Unrecored Work in Progress invoice	-	206 741
	-	265 166 092
Intangible assets		
As previously reported	-	529
Increase in intangible assets that were previously expensed	-	7 969 463
Decrease in intangible assets due to increase in accumulated depreciation	-	(1 542 946)
	-	6 427 046
Payables from exchange transactions		
As previously reported	-	51 835 697
Unrecored Work in Progress invoice	-	237 752
	-	52 073 449
VAT payable		
As previously reported	-	1 830 384
Unrecored Work in Progress invoice	-	(31 011)
	-	1 799 373
Employee benefit obligation		
As previously reported	-	10 360 465
Increase in actuarial gains	-	(394 465)
	-	9 966 000
Accumulated surplus		
As previously reported	-	270 470 148

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
37. Prior year adjustments (continued)		
Increase in Accumulated surplus due to correction of Non current assets	-	17 547 641
	-	288 017 789
Statement of Financial Performance		
Actuarial gains	-	394 465
General expenditure	-	1 836 300
Depreciation and amortization	-	2 657 016
	-	4 887 781
Actuarial gains		
As previously reported	-	1 284 000
Increase in actuarial gains	-	394 465
	-	1 678 465
General expenditure		
As previously reported	-	26 846 977
Increase in general expenditure due to reclassification of repairs and maintenance	-	1 792 130
Increase in general expenditure due to reclassification of Transfer payments - other	-	59 487
Decrease in general expenditure due to decrease in bank charges	-	(15 317)
	-	28 683 277
Revenue forgone		
As previously reported	-	17 102 646
Increase in depreciation due to correction of Intangible assets	-	2 657 016
	-	19 759 662

38. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial performance

2019

During the preparation of the Annual Financial Statements, the following items were reclassified:

	Note	As previously reported	Correction of error	Reclassification on	Restated
Service charges		16 830 823	-	108 502	16 939 325
Other income		750 722	-	(108 502)	642 220
General expenditure		26 846 977	(15 317)	1 851 617	28 683 277
Repairs and maintenance	30	1 792 130	-	(1 792 130)	-
Transfer payment - other		59 487	-	(59 487)	-
Surplus for the year		46 280 139	(15 317)	-	46 264 822

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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39. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the finance department with the assistance of operating divisions, under policies approved by the accounting officer.

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the Municipality's credit control and debt collection policies.

The carrying amount of financial assets represent the Municipality's maximum exposure to credit risk in relation to these assets.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Trade and other receivables from non exchange transaction	11 859 404	6 223 574
Receivables from exchange transactions	19 602 560	7 889 446
Cash and cash equivalents	11 530 781	550 317

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Municipality is exposed to market risk through interest rate risk.

Interest rate risk

The Municipality's interest bearing assets are included under cash and cash equivalents, trade receivables from exchange transactions and receivables from non-exchange transactions. The Municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end, financial liabilities exposed to interest rate risk include those other financial liabilities disclosed in note 9 to the annual financial statements.

Balances with banks, deposits, call accounts and current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of Prime plus 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer note 4 to the annual financial statements.

40. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 301 301 777 and that the municipality's total liabilities exceed its assets by R 301 301 777.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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40. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

However the municipality has noted that it is unable to meet its obligations on time due to cash flow constraints. The management of the municipality has assessed the financial status of the municipality and are confident that the municipal will continue with the operations in the forceable future, given the above, and that we are a government institution with legislated funding that enable us to provide services to the communities.

Below are the Short term measures / plans that will be undertaken in the next twelve months:

Equitable Share; conditional grants; vat refunds from SARS and collection of rates and other services will be utilized to fund the current operations of the municipality.

Full implementation of debt and credit control policy by REVCO (Debt Collector) is also assisting the municipality in improving revenue collection rate so as to assist in the financial viability of the municipality.

The municipality has plans in place to fund specifically the outstanding creditors as at the end of June 2019 and the source of funding is the sale of vacant residential plots

The implementation of cost containment measures is also an enabler for the municipality to ensure spending within the municipality is limited.

Below are the Medium and Long Term measures / plans

To ensure the municipality is a going concern in the forceable future, for example, taking over the selling of electricity in coastal for full enforcement of credit policy in that area;

Improve maintenance and management of municipal public facilities e.g caravan parks, community halls, cemeteries which will contribute meaningfully in revenue enhancement.

Small town revitalization - the municipality in partnership with Department of Economic Development and Economic Affairs have embarked on a process of Small Town Revitalization. This program is aligned to the land audit which will culminate into identifying development nodes and identifying potential investment spaces through which investors shall be lobbied. Releasing of State owned land will enhance economic development initiatives and promote investment opportunities and value chain.

Oceans economy - the National Operation Phakisa which was launched by the President of the Republic of South Africa covers numerous coastal areas including our coast. The national government has invested millions in this project. Our municipality working in collaboration with other strategic partners including the DEDEA has identified potential development pockets and projects which would create massive jobs and business thus changing the current economic environment of the municipality. This will have direct and indirect inputs into the revenue of the municipality given the increase of revenue base. These projects will cover Aqua-culture projects like fish farming, abalone farming, and tourist attractive centers. A Small Town Revitalization strategy has been developed with clear deliverables that will turn our Great Kei municipality to be a tourist destination of choice given the 42km coast that has not been tapped to the fullest.

The municipality has an approved Electricity Master Plan which was developed with the assistance of MISA and NERSA, which includes repairs and maintenance of the electricity infrastructure.

During February 2020 there will be an adjustment budget, wherein it will be adjusted downwards to cut down expenditure.

The municipality in conjunction with Provincial Treasury developed Financial Sustainability Plan for the next five years.

The municipality has embarked in reviewing all its leases for properties to enable improvement in revenue

The municipality is in the process of developing its General Valuation Roll

Great Kei Local Municipality

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	2019 R	2018 R
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40. Going concern (continued)

The municipality has requested assistance from COGTA regarding its financial matters

A sale of obsolete/ redundant movable assets is underway, increasing of collection points and increase in the charge price for building plans has been implemented

41. Events after the reporting date

The Mayor/Speaker of the Municipality resigned as a Councillor in August 2018. An estimate of the financial effect of the resignation cannot be determined. The Municipality is currently under administration as per 139 1(b) and(c) of the Municipal Systems Act .No events having financial implications are requiring disclosure in the annual financial statements occurred subsequent to 30 June 2018

42. Unauthorised expenditure

Opening balance as previously reported	57 041 535	38 345 650
Opening balance as restated	57 041 535	38 345 650
Less: Amount written off - current	(57 041 535)	-
Unauthorised expenditure for the year	-	18 695 885
Closing balance	-	57 041 535

Incident - this is mainly due to inadequate budgeting and monitoring of expenditure. These amounts may not be recoverable as they relate to non-cash expenditure items which are provision for bad debts and the transfer of assets to BCMM, there is also an over payment on legal costs which the municipality may recover.

43. Fruitless and wasteful expenditure

Opening balance as previously reported	2 511 084	661 856
Opening balance as restated	2 511 084	661 856
Less: Amount written off - current	(3 872 057)	-
Amounts incurred in prior year but identified in current year	1 710 028	1 849 228
Closing balance	349 055	2 511 084

Incident - Fruitless and Wasteful expenditure incurred is mainly due to interest and penalties charged because of late payments of suppliers.

Measures to address - The expenditure was reported to Council. The Council resolved that the Council committee Municipal Public Accounts Committee (MPAC) must investigate the causes of the expenditure and recoverability thereof by the end of the reporting period the Committee had not concluded the investigation.

44. Irregular expenditure

Opening balance as previously reported	16 692 776	14 055 418
Add: Irregular Expenditure - current year	75 267	2 637 358
Less: Amounts recovered /transferred to receivables for recovery	16 768 043	16 692 776
Add: Irregular Expenditure - current	-	-
Add: Irregular Expenditure - prior period	-	-
Less: Amount written off - current	(16 692 776)	-
Closing balance	75 267	16 692 776

Great Kei Local Municipality

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Notes to the Annual Financial Statements

	2019 R	2018 R
44. Irregular expenditure (continued)		
Cases under investigation		
Deviations not meeting the S36 criteria	-	78 659
Contravention of PPPFA	-	50 960
Non compliance with SCM Regulations	-	2 470 739
Contravention of MFMA Circular no. 82	-	37 000
Non compliance with MFMA	75 267	506 799
	75 267	3 144 157

45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviation in terms of Clause 36(1)(a)	Corporate Services	Technical and Community Services	Budget and Treasury Office	Strategic Department	Total
Clause 36(1)(a)(v) Impractical or impossible	-	12 567	-	-	12 567

Great Kei Local Municipality

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Notes to the Annual Financial Statements

	2019 R	2018 R
46. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	667 440	250 000
Current year subscription / fee	1 165 330	658 310
Amount paid - current year	-	(240 870)
	1 832 770	667 440
Distribution losses		
Distribution losses	-	2 735 965
	-	-
Electricity distribution losses in units		
Purchases	-	8 616 298
Free units	-	(212 250)
Pre - paid consumer electricity sold	-	(3 793 787)
Conventional Consumer billed	-	(1 874 296)
	-	2 735 965
	-	-
Units purchased during the year	-	8 616 298
Units sold during the year	-	(5 880 333)
	-	2 735 965
The Municipality incurred distribution losses of % which is above the acceptable norm. The losses are due to penalties imposed by eskom for exceeding the maximum demand.		
Audit fees		
Opening balance	519 034	3 545 336
Current year subscription / fee	4 706 773	3 670 578
Amount paid - current year	-	(793 408)
Amount paid - previous years	(1 935 219)	(5 903 472)
	3 290 588	519 034
PAYE and UIF		
Opening balance	7 483 187	2 222 651
Current year subscription / fee	8 072 541	7 738 974
Amount paid - current year	(2 559 132)	(2 478 438)
	12 996 596	7 483 187
Pension and Medical Aid Deductions		
Opening balance	3 571 459	2 861 403
Current year subscription / fee	11 608 661	11 360 450
Amount paid - current year	(13 580 826)	(10 650 394)
	1 599 294	3 571 459

47. Decommissioning, restoration and environmental rehabilitation funds

The municipality is a contributor to the following fund(s): Fund 1 and Fund 2.